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## *An International Problem*

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# SUGAR: AN INTERNATIONAL PROBLEM

*by*

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*with the aid of the Research Staff of the Foreign Policy Association*

## INTRODUCTION

WHETHER the Roosevelt Administration will really work out a system of planned economy may depend on its success in handling the problem of sugar. As with wheat, the problem of sugar is essentially one of overproduction. Although undoubtedly accentuated by the depression, it has grown primarily out of conditions unrelated to any decrease in consumption. Measures taken by many countries to stimulate domestic production of sugar, and uncontrolled expansion in cane-sugar countries such as Java and Cuba brought about a glut on the sugar market long before 1929, despite a normal increase in consumption. Through its policy of economic nationalism, the United States has contributed in no small measure to the depression in the world sugar industry. After successive tariff increases in 1921, 1922 and 1930, production in the last twelve years has increased 140 per cent in the insular areas within our tariff wall, and about 30 per cent in the continental United States. In consequence, Cuba has been gradually displaced as the chief supplier of the American market, its share dropping from an average of 56.2 per cent during 1922-1926 to 28.2 per cent in 1932. Deprived of its principal market in increasing measure, Cuba has been forced to restrict its sugar crop drastically and to dump a large share of its production on the open market, thus further depressing world sugar prices. Since Cuba's economy is based chiefly on sugar, which constitutes four-fifths of its exports to the United States, much economic misery has been caused by the enforced curtailment of over 60 per cent in its sugar production since the peak year 1924-1925.

Efforts to secure an international agreement to regulate the production and marketing of sugar were early undertaken by Cuba, and in 1931 culminated in the adoption of the Chadbourne plan by the chief exporting countries. This agreement has had only limited success, primarily because countries outside it have continued to expand production. Unless the United States adheres to the agreement or adopts measures in harmony with it, the continuation and success of this experiment in international planning will be imperiled.

The Administration has approached the sugar question from two angles. The Agricultural Adjustment Administration attempted to persuade the domestic, insular, and Cuban producers and refiners to enter into a voluntary agreement dividing the American market among them. The resulting marketing plan, drawn in the interest of domestic producers, did not meet with the approval of all interested parties and, if adopted, threatened to perpetuate the present maladjustment at the expense of Cuba. A new sugar proposal was then drawn up by the Administration, but up to the time of going to press had not been published. At the same time the State Department has been carrying on negotiations for the modification of the Cuban Reciprocity Treaty of 1903, in order to provide a larger market for Cuba's staples in return for concessions to American trade.

In framing its measures the government must weigh carefully the equities of the American consumers, as well as those of the producers and refiners on the continent, in our insular possessions, and in Cuba. The equities of the consumers would seem to be important, for American farmers, despite the protection afforded by the tariff, have never produced much more than 20 per cent[1] of the requirements of the continental United States. Dependent for most of their supply on distant insular possessions and on near-by Cuba, the American people are interested chiefly in securing sugar at reasonable prices and from a source dependable and adequate even in times of emergency. The equities of Cuban producers are entitled to consideration inasmuch as the United States, through the Platt Amendment, has incurred a large measure of responsibility for the maintenance of political and economic stability in Cuba. It is generally recognized that perma-

1. In 1932, however, it was 23.7 per cent, while in 1933 it is likely to be 27.6 per cent.

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nent political peace in Cuba is impossible unless the underlying economic distress and unemployment is relieved; this in turn necessitates the restoration of the American sugar market to Cuba.[3] The American people are also economically interested in restoring Cuba's purchasing power, for Cuba has long been one of our largest Latin-American markets. The Administration will also have to pass on the demands of domestic sugar refiners for the restriction or virtual prohibition of imports of refined sugar. Until 1925 all Cuban sugar consumed in the United States was refined in American refineries, but since that time an increasing proportion of Cuban exports has been in refined form, so that in 1932 Cuba supplied 7.7 per cent of the American market for refined sugar.

## THE PRE-WAR SUGAR PROBLEM

The problem of sugar control is one that has occupied the attention of statesmen in many countries almost without interruption for more than seventy years—practically ever since sugar became a household necessity. Its history is in essence a conflict between purely national attempts at solution and internationally coordinated plans to deal with the marketing of this staple. Part of the conflict is the struggle for supremacy between cane and beet sugar. Tropical and semi-tropical countries, such as Cuba and Java, naturally adapted to the growing of cane, have been able to produce sugar at a lower cost than countries in the temperate zone—the natural home of the sugar beet. Aided by lower labor costs, large-scale methods of cultivation and, above all, by a yield per acre which averages about 100 per cent higher than beet sugar,[4] cane sugar began to offer increasing competition to beet sugar in the closing decades of the 19th century. Beet sugar countries, however, were for the most part unwilling to avail themselves of the cheaper cane sugar. From political considerations they wished to insure a domestic supply of sugar; from economic considerations they deemed the growing of sugar beets an essential part of their agricultural economy. The clean fields and improvement of the soil resulting from the intensive methods of cultivation employed in the growing of beets, the by-products such as beet pulp, leaves and molasses, useful in the raising of livestock, and finally the high rate of employment in the beet fields[5] were all held out as advantages entitling the beet-sugar industry to governmental protection.

It is therefore not surprising that from the very time beet-growing became economically feasible—early in the 19th century—production was fostered by means of bounties and tariffs, and that, when it exceeded domestic consumption, exports were stimulated in the same way. In many European countries cartels were formed with the object of keeping the price high within the tariff wall and dumping the surplus at low prices on the world market. Yet in the end these methods defeated themselves; overproduction resulted, governments competed in the granting of bounties so that the burden on national exchequers became increasingly unbearable, and the advantages of dumping surplus production were offset in time by countervailing duties. The prevalence of these conditions in Europe led to early efforts to curb nationalistic sugar policies,[6] culminating finally in the conclusion of the International Sugar Convention in 1902.[7]

### THE SUGAR CONVENTION OF 1902

This convention, to which practically all European countries adhered,[8] abolished all direct and indirect premiums on the production and exportation of sugar and provided that no new ones were to be granted. The parties were pledged to impose countervailing duties on bounty-fed sugar. To prevent the formation of cartels for the dumping of sugar abroad, the net tariff protection to be accorded the domestic sugar industry was limited. A permanent international sugar commission was created to supervise the execution of the agreement and in particular to ascertain whether countries were granting bounties.[9]

The convention remained practically effective until the beginning of the World War, and was not legally terminated until 1920. Although weakened in 1908 by Great Britain's withdrawal from the obligation to impose countervailing duties, it conferred sub-

3. "Cuba Ousts Machado," *Foreign Policy Bulletin*, August 18, 1933.

4. League of Nations, Economic and Financial Section, Sugar, *Memoranda Prepared for the Economic Committee by Dr. H. C. Prinsen Geerligs, Messrs. F. O. Licht and Dr. Gustav Mikusch* (Geneva, 1929), C.148.M.57., 1929.II., p. 24; also Lippert S. Ellis, *The Tariff on Sugar* (The Rawleigh Foundation, 1933), p. 27-8, 31-3.

5. F. O. Licht estimates that in terms of men's work-years the number of hands employed in intensive farming on good soil is 7.5 per 25 hectares when beets constitute 30 per cent of the crop, as against 3 when no beets are grown. League of Nations, Sugar, *Memoranda*, cited, p. 25.

6. As early as 1864 France, Great Britain, Belgium and the Netherlands made a rather ineffective attempt through the Paris Sugar Convention to limit the practice of giving export bounties, and in the remaining years of the century no less than seven international conferences were held to deal with this subject. Cf. Dr. Gustav Mikusch, *Geschichte der internationalen Zuckerkonventionen* (Berlin, Paul Parey, 1932), p. 15-6, 82-5.

7. *Ibid.*, p. 16-22, 86-92.

8. Germany, Austria-Hungary, Belgium, France, Great Britain, Italy, the Netherlands, Sweden and Norway were the original contracting states; Luxemburg, Peru and Switzerland adhered subsequently, and Russia was admitted under special conditions in the Protocol of December 19, 1907.

9. For an analysis of the terms of the convention, cf. Mikusch, *Geschichte der internationalen Zuckerkonventionen*, cited, p. 23-30.

stantial benefits on all concerned. Not only did it abolish the premium plague, to the great relief of national treasuries,[10] but it freed the world price from the artificial pressure resulting from the dumping of bounty-fed sugar and increased consumption due to the decrease in tariff rates. To a certain extent these advantages were offset by the fact that extra-European countries such as the United States continued to subsidize their sugar production without any restriction. Although the convention equalized the competitive conditions for cane and beet sugar, the latter did not suffer as much in consequence as had been feared, the share of beet sugar in world production falling only from 50 per cent to 45 per cent in the period from 1901-1902 to 1913-1914.[11]

## POST-WAR OVERPRODUCTION OF SUGAR

The almost unnoticed termination of the International Sugar Convention in 1920 was in itself a sign that an attempt to restrain the forces of economic nationalism emerging triumphant from the war would be futile. Production of beet sugar in Europe had fallen off from an annual average of about 8,000,000 tons[12] during the period 1911-1915 to 2,916,862 tons in the crop year 1919-1920. Since many countries had suffered a sugar famine, it was not surprising that most of them strove by means of increased tariffs, private and government-fostered cartels, and direct bounties to bring their production back to pre-war volume, and that several, not previously producers, sought to develop a domestic source of supply. Even Great Britain, by the Sugar Act of 1925, granted a substantial subsidy to its beet growers for a period of ten years,[13] so that production mounted from 65,018 tons in 1925-1926 to no less than 533,368 tons in 1930-1931.[14] The subsidies cost the Exchequer almost £30,000,000 from 1924-1925 to 1930-1931.[15] The net result of these protective measures was that European production more than regained its pre-war volume, attaining a record amount of 11,809,652 tons in 1930-1931.

Outside Europe, areas which formerly produced but little sugar expanded their production enormously. In Australia, for example, the importation of sugar was wholly prohibited and the domestic price was fixed high enough so that the surplus could be exported at the world price.[16] Production rose from 167,401 long tons in 1920 to 601,900 tons in 1931, and Australia changed during the same period from a net importing country to the extent of 96,521 long tons to a net exporting country to the amount of 272,929 tons.[17] Similarly in South Africa the application of artificial stimulus led to a rise in production from 128,285 to 348,535 long tons, of which 50 per cent was exported.[18]

The United States was not immune from this economic nationalism. The tariff rate on Cuban raw sugar—the only effective rate, since Cuba is the sole foreign supplier of the American market—was raised from 1.0048 cents per pound to 1.6 cents in 1921, to 1.7648 cents in 1922, and finally to 2 cents in 1930. Although enacted primarily to help the American farmer, the sugar tariff redounded chiefly to the advantage of cane sugar producers in Hawaii, the Philippines and Puerto Rico, most of whom were able to produce sugar more cheaply than the continental beet and cane farmers. As the accompanying tables show, the domestic production of beet sugar rose slowly and the production of cane, always small, actually decreased owing to the prevalence of disease and unfavorable climatic conditions. The insular areas, on the other hand, produced almost one and a half times as much in 1932 as in the years before the war, thus largely displacing Cuban sugar on the American market. In 1932 American overseas posses-

10. In 1901-1902 direct sugar premiums in Germany amounted to 40.7 and in Austria to 15.3 million marks. In France direct and indirect bounties totalled 88.2 million, in Holland 4.1 million, and in Belgium about 4.9 million marks. *Ibid.*, p. 30.

11. Dr. Mikusch holds that the severer competition of cane sugar stimulated beet growers to use the best agricultural technique, and beet factories to improve their methods of refining and marketing. *Ibid.*, p. 31.

12. Except where otherwise noted, short tons of 2,000 pounds are used throughout this report. Similarly, statistics are taken generally from U. S. Tariff Commission, *Statistics on Sugar*, May 1933.

13. *Report on the Sugar Beet Industry at Home and Abroad* (H. M. Stationery Office, 1931); also comments thereon, *The Economist* (London), July 4, 1931, p. 7-8. The subsidy amounted for the first four years to 19s. 6d. per hundredweight, for the next three years to 13s., and for the last three to 6s. 6d. For the first four years the subsidy was coupled with a guarantee of a minimum price of 44s. per ton of beets rating a sugar content of 15½ per cent.

14. International Sugar Council, *Memorandum on the Aims and Provisions of the International Sugar Agreement of 9th May, 1931*, March 6, 1933, p. 17. Since 1930-1931 production has decreased somewhat, the latest estimate for the 1932-1933 crop amounting to 403,000 tons.

15. One writer estimates that the government would have expended less money had it furnished Cuban sugar gratis to every English consumer. Cf. Pierre Frederix, "Les Accords Internationaux de Production," *L'Europe Nouvelle*, August 5, 1933, p. 747.

On July 27, 1933 Major Elliot, Minister for Agriculture, announced in the House of Commons that the government had decided, as a temporary measure pending a full investigation of the sugar industry, to introduce at the next session of Parliament legislation continuing the subsidy policy for one year after September 30, 1934, when the present Act expires. The subsidy would be the same as that paid in the last year of the existing Act. Cf. *The Times* (London), July 28, 1933.

16. International Sugar Council, *Memorandum*, cited, p. 20. Average prices per ton of raw sugar were as follows:

| *Year* | *Domestic Price* | | | *Export Price* | | | |
|---|---|---|---|---|---|---|---|
| | £ | s. | d. | £ | s. | d. | |
| 1927 | 26 | 10 | 0 | 12 | 2 | 6 | |
| 1928 | 26 | 13 | 6 | 10 | 10 | 0 | |
| 1929 | 26 | 16 | 0 | 9 | 17 | 0 | |
| 1930 | 27 | 0 | 0 | 8 | 5 | 0 | |
| 1931 | 26 | 19 | 0 | 9 | 7 | 0 | (Australian currency) |

17. *Ibid.*, p. 20.

18. *Ibid.*, p. 21-22.

sions supplied no less than 47.7 per cent of the market as compared with 25.5 per cent during 1912-1916 and 14.8 per cent during 1897-1901, whereas the Cuban share dropped to 28.2 per cent in 1932 as compared with 50 per cent in 1912-1916.

### Table I
**PRODUCTION IN THE CHIEF AREAS SUPPLYING THE AMERICAN MARKET**
*(in thousands of short tons)*

| Year | U. S. Mainland Cane Production | U. S. Mainland Cane Index of increase | U. S. Mainland Beet Production | U. S. Mainland Beet Index of increase | U. S. Possessions Production | U. S. Possessions Index of increase | Cuba Production | Cuba Index of increase |
|---|---|---|---|---|---|---|---|---|
| 1911-15 | 242 | 100 | 724 | 100 | 1259 | 100 | 2960 | 100 |
| 1921 | 169 | 70 | 1086 | 150 | 1347 | 107 | 4408 | 149 |
| 1922-26 | 202 | 83.5 | 917 | 127 | 1624 | 129 | 4856 | 164 |
| 1927-31 | 127 | 52.5 | 1049 | 145 | 2434 | 193 | 4808 | 162 |
| 1931 | 184 | 76 | 1205 | 166 | 2662 | 211 | 3497 | 118 |
| 1932 | 156 | 64 | 1148 | 158.5 | 3124 | 248 | 2915 | 98.5 |
| 1933 (est.) | 259 | 107 | 1446 | 200 | 3131 | 248 | 2234 | 75.5 |

Source: U. S. Tariff Commission, *Statistics on Sugar*, p. 7.

### Table II
**CROP-SOURCES OF SUGAR MARKETED IN THE UNITED STATES**
*(in percentages)*

| Crop-source | 1897-1901 | 1912-1916 | 1917-1921 | 1922-1926 | 1927-1931 | 1932 |
|---|---|---|---|---|---|---|
| U. S. Mainland | | | | | | |
| Cane | 11.1 | 5.7 | 5.1 | 2.9 | 2.3 | 2.6 |
| Beet | 3.2 | 17.5 | 18.4 | 16.5 | 17.1 | 21.1 |
| Total | 14.3 | 23.2 | 23.5 | 19.4 | 19.4 | 23.7 |
| U. S. Possessions | | | | | | |
| Hawaii | 12.0 | 14.0 | 12.4 | 10.4 | 12.9 | 16.4 |
| Virgin Islands | * | * | .2 | .1 | .1 | .1 |
| Puerto Rico | 2.1 | 8.6 | 9.0 | 7.2 | 9.8 | 14.6 |
| Philippines | .7 | 2.9 | 2.3 | 5.4 | 10.3 | 16.6 |
| Total | 14.8 | 25.5 | 23.9 | 23.0 | 33.1 | 47.7 |
| Foreign | | | | | | |
| Cuba | 16.7 | 49.7 | 48.6 | 56.2 | 47.0 | 28.2 |
| Other | 53.5 | 1.1 | 3.4 | 1.2 | .4 | .4 |
| Total | 70.1 | 50.8 | 52.0 | 57.4 | 47.4 | 28.6 |

Source: U. S. Tariff Commission, *Statistics on Sugar*, p. 13. *Reported among "Other foreign" prior to 1917.

The effect of the artificial stimulus imparted to sugar production in many countries was further aggravated by a great expansion of output in areas naturally adapted to the growing of cane for the world market. The decline of beet growing in Europe during the war was more than offset by increased production of cane in other areas, and after the war this expansion continued, stimulated in part by the high price of sugar in the early twenties, and in part by improvements in the variety of cane.[19] Planters in Java, profiting from extremely low costs and their geographical propinquity to the vast Far Eastern market,[20] produced an annual average of 3,117,814 tons during 1926-1931, as compared with only 1,501,110 tons in the 1911-1916 period—an increase of over 100 per cent. In Cuba the influx of American capital, particularly at the time of the sugar boom immediately after the war, contributed to an enlarged production, which attained a record crop of 5,775,073 tons in 1928-1929, more than two and a half million tons greater than the pre-war crops. Added to the expansion in the older cane-producing areas was that in newer regions—such as Santo Domingo, where production rose from 184,171 long tons in 1923 to 427,621 in 1932.

The following table indicates the upward swing in world production and its depressing effect on world prices, which declined at one time in 1932 to an all-time low of 0.57 cents per pound. From 1923 to 1931 a net surplus of 7,782,000 tons of sugar was produced.[21]

**WORLD SUGAR PRODUCTION AND PRICES**

| Year | Production (in millions of short tons) | World Price (Cuban raw, c & f New York ex duty) |
|---|---|---|
| 1913 | 20.33 | ........ |
| 1922 | 19.88 | 2.977¢ |
| 1923 | 20.59 | 5.240¢ |
| 1929 | 30.84 | 2.001¢ |
| 1930 | 30.60 | 1.499¢ |
| 1931 | 32.24 | 1.329¢ |
| 1932 | 29.25 | 0.925¢ |
| 1933 (estimate) | 27.14 | ........ |

Source: U. S. Tariff Commission, *Statistics on Sugar*, p. 2; prices, Annex IX, International Sugar Council Document C.D. 242, *Memorandum on the Aims and Provisions of the International Sugar Agreement*.

19. As an example, the development of the high-yielding P.O.J. (*Pasoeroean Oost Java*) canes is usually cited. Production of sugar in Java increased steadily from 965 quintals of cane per hectare (yielding an average of 97.1 quintals of head-sugar) in 1919, to 1,319 quintals of cane per hectare (yielding 151.3 quintals of head-sugar) in 1928. Cf. Ellis, *The Tariff on Sugar*, cited, p. 32, footnote 7.

20. Owing to their geographical situation, Java producers were able, through their cooperative selling agency (*Vereenigde Java Suiker Producenten*), to maintain relatively high prices for their sugar in Far Eastern markets and to sell the balance of their crops in Europe at prices lower by ¾ to 1½ gulden. Cf. League of Nations, Sugar, *Memoranda*, cited, p. 45-6. An exhaustive analysis of the Java sugar industry and its marketing practices is contained in A. de Graaff, *Het internationale Suikervraakstuk en de Java-Suikerindustrie* (J. Muusses, Purmerend, 1931).

21. Mikusch, *Geschichte der internationalen Zuckerkonventionen*, cited, p. 41.

## THE CHADBOURNE AGREEMENT

These conditions gave rise, as before the war, to demands for international action to control production and marketing. At the instance of the Council of the League of Nations, the League's Economic Committee took up the problem in 1928. Although unable to obtain an agreement on methods, its report forcibly stressed the necessity for international action:

> "The subsidies, the bounties, the protective and the preferential duties or geographical advantages under which seven-eighths of the world sugar supply is produced or marketed have stimulated local production, have diverted or twisted the channels of trade, have built a pyramid of differential prices, but collectively they have done nothing to restrain the forces which are adversely affecting the industry as a whole. Indeed, it cannot be expected that unconcerted national action will solve a problem essentially international in character. On the contrary, the bounties on export, the high protective duties which render dumping possible have directly contributed to the surplus supplies which are unduly depressing prices."[22]

The *initiative* toward an international agreement was taken by Cuba which, more than any other country, suffered from the disproportionate increase in production and the nationalistic policy adopted to exclude it from its chief market. Having reduced its own crop by successive decrees to 5,407,000 tons in 1925-1926, and to 5,040,000 and 4,480,000 tons in the next two years, it dispatched Colonel Tarafa to Europe in 1927 to enlist the cooperation of European and Javanese producers in this policy of restriction.[23] Primarily due to the opposition of the Java planters, the mission failed[24] and, in consequence, Cuba's own restriction program was abandoned. A record crop was produced in 1928-1929. In order to check the ensuing price decline, a single agency was established in 1929 for the sale of all sugar exports to the United States. Although this agency was able for a time to obtain higher prices for Cuban sugar, its operations led to the accumulation of stocks in Cuba, aroused the antagonism of American refiners, and threatened to stimulate the production of sugar within the American tariff wall; accordingly it was discontinued in 1930, after functioning little more than half a year.[25]

The demonstrable inefficacy of these domestic measures gave renewed impetus to efforts toward international action. Conferences to this end in 1929 again yielded no result. In 1930, under the leadership of American banks which had become heavily interested in Cuban sugar through the failure of many Cuban-American sugar companies, efforts were redoubled. Mr. Thomas L. Chadbourne, a prominent New York attorney, was designated to take charge of negotiations for a world plan calling for the segregation of existing surpluses to be marketed over a period of five years, and the limitation of production so that, together with the segregated sugar, it would meet current consumption. The Cuban legislation necessary to carry out such an agreement was passed.[26] Negotiations were first begun with American producers, but the Gentlemen's Agreement reported to have been reached never really materialized.[27] Elsewhere the Cubans were more fortunate, especially since the Java planters, who for the first time were experiencing real difficulties in marketing their sugar, were prepared to cooperate. On May 9, 1931 producers of the chief European sugar-exporting countries, Java and Cuba signed at Brussels the so-called Chadbourne agreement.

This agreement has a duration of five years, expiring September 1, 1935. In order to restore the balance between supply and demand, it fixes for the producers in each of the participating countries an export quota to be drawn in part from the current crop, in part from segregated surplus stocks, so that in five years the entire surplus will be eliminated. Production is to be curtailed sufficiently so as not to permit the accumulation of new stocks. To forestall too great a rise in prices and an attendant stimulation of production in other countries, provision

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22. League of Nations, Report by the Economic Committee, *The World Sugar Situation*, C.303.M.104.1929.II.

23. For a survey of Cuban measures of restriction, cf. Myer Linsky, *Agricultural Price-supporting Measures in Latin-America*, Bulletin of the Pan-American Union, July 1933, p. 574-80; also Mikusch, *Geschichte der internationalen Zuckerkonventionen*, the Appendix of which contains a compendium of the Cuban laws and decrees applying to sugar.

24. Mikusch, *Geschichte der internationalen Zuckerkonventionen*, cited.

25. The agency operated actually from September 1, 1929 to April 14, 1930. By eliminating competition among Cuban exporters it enabled them to secure part of the .4412 cents per pound preferential which Cuban sugar enjoyed over other foreign sugar in the American market. Cf. Ellis, *The Tariff on Sugar*, cited, p. 128, 174-5.

26. The Sugar Stabilization Law of November 15, 1930 authorized a bond issue of $42,000,000 to enable the National Sugar Exporting Corporation, established by the law, to acquire up to 1,500,000 tons of sugar from existing stocks and from the 1930-1931 crop. The corporation was directed to dispose of this sugar over the next five years, and no sugar was to be exported without a license issued by the corporation. The President of Cuba was empowered for the next five years:

1. To fix the total amount of each year's crop if same should be determined by some international agreement or if 65 per cent of the mill-owners producing at least 65 per cent of the sugar should so request;
2. To fix the amount of sugar to be exported to the United States annually and determine, in accordance with some future international agreement, the total amount of each crop to be exported and the part to be exported to countries other than the United States.

For the text of this law, cf. *Gaceta Oficial*, Edición Extraordinaria, November 15, 1930.

27. According to *The Economist* of January 10, 1931 (p. 56), this supposed agreement consisted of an undertaking by Cuba to limit exports to the United States to 2,800,000 tons in 1931—as compared with an average of 3,165,000 tons in the last five years—in return for a pledge by American insular and continental producers to limit their output to the 1929-1930 level. The Cuban quota was to increase in the following two years by an amount equivalent to the rise in American consumption, but in the last two years of the agreement—1934 and 1935—this increase was to be shared with the American producers.

is made for progressive increases in the quotas as soon as the price, f.o.b. Cuba, attains and exceeds 2 cents per pound.[28] An international Sugar Council, composed of representatives of the contracting parties, is charged with the administration of the plan and the conduct of negotiations for the adhesion of producers in other countries.[29]

**EXPORT QUOTAS UNDER THE CHADBOURNE AGREEMENT**

| *Country* (*thousands of tons, raw basis*) | *1st yr.* | *2nd yr.* | *3rd yr.* | *4th yr.* | *5th yr.* |
|---|---|---|---|---|---|
| Cuba* (Jan.-Dec.) | | | | | |
| Export quota to countries other than U. S. | | | | | |
| 1. drawn from current crop | 395 | 545 | 595 | 595 | 595 |
| 2. drawn from segregated surplus | 260 | 260 | 260 | 260 | 260 |
| 3. total | 655 | 805 | 855 | 855 | 855 |
| Exports to U. S. | 2577 | 2800 | 2800 | 2800 | 2800 |
| Total exports | 3232 | 3605 | 3655 | 3655 | 3655 |
| Java** (April-March) | | | | | |
| Export quota | | | | | |
| 1. drawn from current crop | 2200 | 2300 | 2400 | 2500 | 2600 |
| 2. drawn from segregated surplus | 100 | 100 | 100 | 100 | 100 |
| 3. total | 2300 | 2400 | 2500 | 2600 | 2700 |
| Europe** | | | | | |
| Czechoslovakia (Oct.-Sept.) | 570.817 | 570.817 | 570.817 | 570.817 | 570.817 |
| Germany (Sept.-August)† | 500 | 350 | 300 | 300 | 300 |
| Poland (Sept.-August) | 308.812 | 308.812 | 308.812 | 308.812 | 308.812 |
| Hungary (Sept.-August) | 84.100 | 84.100 | 84.100 | 84.100 | 84.100 |
| Belgium (Sept.-August) | 30.275 | 30.275 | 30.275 | 30.275 | 30.275 |
| Yugoslavia | 12.500 | 12.500 | 12.500 | 12.500 | 12.500 |
| Total | 1506.504 | 1356.504 | 1306.504 | 1306.504 | 1306.504 |
| Peru* | 360 | 373.500 | 373.500 | 373.500 | 373.500 |

*Long tons. **Metric tons.
†Art. VI provides that if Germany is unable to export its quota allotment in any one year, this deficit up to a certain amount is to be apportioned according to a fixed ratio between Cuba, Czechoslovakia, Poland, Hungary and Belgium.
Source: Ellis, *The Tariff on Sugar*, p. 179.

The expectation that this agreement would resolve the crisis in the sugar industry was not realized. The price of raw sugar fell to a record low of 0.57 cents in June 1932. For this result two factors were primarily responsible: the unanticipated decrease of world sugar consumption; and the large increase in production in certain countries outside the agreement.

When the Chadbourne plan was signed the increase in consumption, amounting annually to 4½ per cent from the end of the war till 1928-1929, had already been halted, but it was not expected that there would be a drop of one million tons in the next year.

ANNUAL CONSUMPTION[30]
(*in metric tons, raw value*)

| | |
|---|---|
| 1928-29 | 26,023,000 |
| 1929-30 | 25,111,572 |
| 1930-31 | 25,797,954 |
| 1931-32 | 24,585,452 |

From the beginning, the greatest potential danger to the success of the agreement lay in the fact that the participating countries produced only 44 per cent of the world's sugar crop and accounted for but 70 per cent of the sugar entering international trade.[31] Strenuous efforts were made to secure the cooperation of other sugar-producing countries, but only Peru and Yugoslavia could be induced to adhere. In consequence, the large sacrifices made by the participating countries in cutting their production by almost one half—nearly six million metric tons from the 1929-1930 level—were in large part offset by an increase of over two million tons in the production of others:

WORLD PRODUCTION[32]
(*in metric tons, raw value*)

| *Year* | *Parties to Agreement* | *Outsiders* |
|---|---|---|
| 1929-30 | 12,270,571 | 11,642,623 |
| 1930-31 | 11,427,645 | 12,651,802 |
| 1931-32 | 9,011,334 | 12,923,732 |
| 1932-33 (estimate) | 6,446,000 | 13,801,000 |

From this condition Cuba and Java suffered most. While the European parties to the agreement were able to dispose of their surpluses, due to drastic curtailment of production, Cuba and Java, meeting with marketing difficulties in the United States and the Far East respectively, have continued to struggle with large surplus stocks. The agreement had fixed no quota for Cuba's exports to the United States, but was posited on the expectation that these exports would be about 2,800,000 long tons (3,136,000 short tons) annually. Owing to the decline in consumption and the continued rise in American produc-

28. Article V. The text of the agreement may be found in Annex I to International Sugar Council Document C.D. 242, *Memorandum*, cited. Quotas are automatically increased 5 per cent if the price for 30 consecutive market days reaches 2 cents, by 2½ per cent (at the option of the Sugar Council) when it touches 2¼ cents, and by a further amount, totalling 5 per cent inclusive of the second increase, when the price rises to 2½ cents.

29. Votes on the Council are distributed as follows: Cuba 35, Java 30, Czechoslovakia 8, Germany 6, Hungary 3, Belgium 2. Peru subsequently received 5, and Yugoslavia 1 vote. Francis E. Powell, chairman of the Anglo-American Oil Company, was made chairman of the Council.

30. International Sugar Council, *Memorandum*, cited, p. 11.

31. Ellis, *The Tariff on Sugar*, cited, p. 39.

32. International Sugar Council, *Memorandum*, cited, p. 11.

tion, however, exports actually dropped to 2,409,000 short tons in 1931, and to 1,807,000 tons in 1932.[34] Java's difficulties in marketing its quota were partly due to warlike complications in the Far East, but primarily to the curtailment of its share in the large Indian market. After the Indian government in 1931 embarked on a policy of protecting the domestic sugar industry,[35] Java's exports to India fell from 809,700 metric tons in 1930-1931 to 368,000 tons in the next year.[36]

SURPLUS STOCKS[36a]
(*in metric tons, raw value*)

| *European countries* | *Sept. 1, 1931* | *Sept. 1, 1932* | *Sept. 1, 1933 (est)* |
|---|---|---|---|
| Germany | 560,162 | 516,972 | 25,000 |
| Czechoslovakia | 177,929 | 92,777 | 0 |
| Poland | 182,624 | 94,405 | 0 |
| Hungary | 53,396 | 28,420 | 0 |
| Belgium | 23,685 | 7,803 | 0 |
| | *Apr. 1, 1932* | *Apr. 1, 1933 (est)* | *Apr. 1, 1934 (est)* |
| Java | 1,406,612 | 2,300,000 | 1,800,000 |
| | *Jan. 1, 1932* | *Jan. 1, 1933* | *Jan. 1, 1934 (est)* |
| Cuba (long tons) | 1,720,261 | 1,616,684 | 820,000 |

Although adjustments were made in the quotas, primarily to allow Cuba larger exports to countries other than the United States,[37] such changes in the agreement in the eyes of the contracting parties were no effective substitute for cooperative action in the reduction of production by outside countries. At the World Economic Conference in 1933, the Cuban delegate, Dr. Orestes Ferrara, proposed that all countries should at least agree to grant no new subsidies, direct or indirect, for the production or exportation of sugar, and to make no increase in tariff duties on sugar which would raise the rate to more than 70 per cent ad valorem during the period up to September 1, 1935.[38] This suggestion, however, met such opposition, particularly from the British Indian delegate, that it was reluctantly withdrawn. The conference adjourned without taking action on the sugar question, although it instructed the British delegation and the Sugar Council to continue negotiations on the basis of a modification of the Cuban proposals.[39]

That the success and continuation of the Chadbourne plan is dependent on the adhesion or cooperation of outside countries was stressed anew in July, when the parties to the plan notified the Sugar Council that their willingness to extend the operation of the plan beyond September 1, 1935 was contingent upon an agreement before the end of 1933 with other countries principally concerned in the production of sugar.[40]

## THE UNITED STATES SUGAR MARKETING PLAN

Meanwhile the possibility of reducing the production of sugar in the United States has been created through the enactment of the Agricultural Adjustment Act, which received presidential approval on May 12, 1933.[41] The Secretary of Agriculture is empowered by this Act to enter into voluntary marketing agreements with the producers, processors and distributors of any agricultural commodity. Under the joint auspices of Charles J. Brand, co-administrator of the Act, and Dr. John L. Coulter of the U. S. Tariff Commission, a conference of representatives of the sugar industry in the United States and its insular possessions was convened in Washington on June 27, 1933. Out of this conference and its committees there emerged on July 18 a tentative marketing agreement[42] which allocated to the various areas supplying the American market the quotas set forth in the following table. This agreement, which was to last but three years from July 1, 1933, provided for compulsory reduction in production only when the reserves at the end of any contract year in a producing area exceeded the quota of that area by more than 10 per cent.[43]

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34. U. S. Tariff Commission, *Statistics on Sugar*, cited, p. 7.
35. *Report of the Indian Tariff Board on the Sugar Industry* (Government of India, Central Publication Branch, 1931).
36. International Sugar Council, *Memorandum*, cited, p. 18.
36a. *Ibid.*, cited, p. 9.
37. In March 1932, after a prolonged crisis during which Cuba threatened to denounce the agreement, the European countries and Peru in return for a limitation of the Cuban crop to 2,700,000 long tons undertook to reduce their export quotas for the years ending September 1, 1932 and 1933 (for Peru, December 31, 1932 and 1933) by the amount by which Java's exports during the year April-March, 1932-1933, exceeded 1,500,000 metric tons. Cf. Mikusch, *Geschichte der Internationalen Zukerkonventionen*, cited, p. 72.

Again, by a resolution adopted by the Sugar Council on December 2, 1932 Cuba obtained for 1932 a quota of 985,000 long tons instead of 805,000 tons, and in addition 65,000 tons as its share in the German export quota deficiency existing on September 1, 1931. For 1933 it was assured a quota of 1,000,000 tons. Germany agreed not to export more than 200,000 metric tons from September 1, 1932 to August 31, 1933, and to cede Cuba 76,666 metric tons out of the 300,000 ton quota allotted Germany for the following two years. The agreement was made contingent on the Cuban crop not exceeding 2,000,000 Spanish tons, as fixed by decree of the Cuban President of November 2, 1932. For further details, cf. International Sugar Council, *Memorandum*, cited, Annex 1 *bis*.

38. League of Nations, Monetary and Economic Conference, Doc. M.E./C.E.14. The parties would also agree for a period of ten years not to construct any new sugar factories, increase the capacity of existing factories, or rebuild factories which, having been totally or partially dismantled, have ceased to be active units of production.
39. League of Nations, Monetary and Economic Conference, *Journal*, July 1, 8, 20, and 21. The modified plan introduced by the British delegation embodied the following features: (1) countries producing sugar but importing a substantial portion of their requirements to limit their production; (2) countries self-sufficient as to sugar but not normally exporters not to expand their production beyond domestic requirements; (3) exporting countries not parties to the Chadbourne agreement not to increase their exports above the present level; (4) parties to the Chadbourne agreement to continue limiting exports and production in accordance with its terms; (5) all countries not to stimulate production artificially. Cf. *Facts About Sugar*, August 1933, p. 308.

**PROPOSED QUOTA ALLOTMENTS FOR THE AREAS SUPPLYING THE AMERICAN MARKET, AS COMPARED WITH THEIR RESPECTIVE SHARES IN 1927-31 AND 1932**
(*in thousands of tons*)

| *Producing Area* | *Amount supplied American market annually 1927-31* | *1932* | *Estimated production 1933* | *Proposed quota* | *Amount of quota to be imported as "direct consumption" (chiefly refined) sugar* | *Refined sugar exports to the U. S. in 1932* |
|---|---|---|---|---|---|---|
| United States | | | | | | |
| Beet Sugar | 1,049 | 1,148 | 1,446 | 1,525 | ...... | ...... |
| Cane Sugar | 127 | 156 | 259 | 310 | ...... | ...... |
| U. S. Possessions | | | | | | |
| Hawaii | 874 | 1,021 | 1,008 | 975 | 30 | 24.3 |
| Puerto Rico | 665 | 894 | 834 | 875 | 100 | 111.2 |
| Philippines | 686 | 1,040 | 1,283 | 955.92 | 56 | 57.5 |
| Virgin Islands | 5.6 | 4.3 | 6 | 9.08 | ...... | ...... |
| Cuba | 3,218 | 1,807 | 2,234 | 1,700 | 110 | 446 |
| Total | 6,624.6 | 6,070.3 | 7,070 | 6,350 | 296 | 639 |

Source: Estimates of production for 1933 from Willett & Gray, *Weekly Statistical Sugar Trade Journal*, August 24, 1933; all others, with the exception of quota figures, from U. S. Tariff Commission, *Statistics on Sugar*.

A glance at the table reveals that the proposed quotas were favorable to domestic producers and very disadvantageous to Cuba. American beet growers were given a quota exceeding even this year's record crop, estimated to be 300,000 tons larger than last year's. Domestic cane growers were treated with equal favor. American insular producers, with the insignificant exception of the Virgin Islands, were given quotas slightly lower than their shares in 1932. Cuba, on the other hand, was cut by 100,000 tons, despite the fact that its exports to the United States in 1932 were already 44 per cent lower than the average in the preceding five-year period. Cuba also was accorded no vote on the Sugar Stabilization Board to be established to administer the agreement.[44] Moreover, the sugar refiners in the United States employed the agreement as a means to reduce drastically imports of refined sugar, particularly from Cuba.

At the hearings held on this agreement in Washington on August 10-11, almost all the interested groups objected to these tentative quotas. Domestic beet growers protested against any limitation whatsoever; all the insular producers, except the Hawaiian group, demanded larger quotas; Cuban interests protested vigorously; and the domestic refiners advocated total prohibition of all imports of refined sugar.[45] In view of these differences, agents of the Administration advised abandonment of the plan unless the interests involved reached a "written agreement."[46] On August 19 all interested groups, with the exception of Cuba and the Philippines, united on a revised plan in which the beet growers—in return for a further enlargement of their quota to 1,750,000 tons—agreed to participate.[47] Hearings on this agreement were held on August 29, but when the opposition of Cuban and Philippine representatives could not be overcome, the hearings were terminated and the Administration decided to draft its own marketing plan.[48] As this report goes to press the Administration's proposals have been submitted to the industry and virtual agreement is reported to have been reached.

In order to judge the claims to consideration advanced by each of the interested parties, an analysis of their respective positions is essential.

## DOMESTIC SUGAR GROWERS

Domestic growers contend that both the tariff of 1930 and the agricultural relief bill of 1933 were passed to help the American farmer rather than American capitalists producing in Cuba and the Philippines. The Agricultural Adjustment Act provides for compensated reduction of production only in the case of "basic agricultural commodities," such as cotton, tobacco, cereals and hogs, of which export surpluses are being produced. Furthermore, the growing of beets is an im-

40. *Facts About Sugar*, August 1933, p. 308.
41. 73rd Congress, H. R. 3835.
42. For the text, cf. *Facts About Sugar*, August 1933, p. 303-8.
43. This provision, which does not apply to Cuba and the Philippines, requires the producing area in such a case to adjust its production so that the amount produced in the succeeding year, when added to the existing reserve, will not exceed 110 per cent of the quota of that area.
44. Cuba, however, was allowed to have a non-voting representative on the board. The latter was to be composed of the Secretary of Agriculture and eight members to be selected by each of the following groups: continental beet growers; continental beet refiners; continental cane planters and processors; American refiners of raw cane sugar imported into the continental United States; and producers and refiners in Hawaii, the Philippines, Puerto Rico and the Virgin Islands, and Cuba. Consumers were not to be represented. Action by the board required the unanimous consent of the voting members. One of the functions of the board was to determine and announce on each market day the fair world price of raw sugar on the basis of the London price, or to determine this price itself if it did not consider the London price fair.
45. Agricultural Adjustment Administration, *Hearings on the tentative Sugar Marketing Agreement*, August 10-11, 1933 (2 vols).
46. U. S. Department of Agriculture, *Press Releases*, August 12, 1933.
47. The beet growers, however, agreed not to expand their acreage beyond the 1933 maximum, estimated at 1,065,000 acres. An additional 25,000 acres would be allowed for the eastern beet area, to take care of beet factories in the Saginaw and Toledo districts not operating at present. The revised plan left unaltered quotas for other producing areas. Cf. *Facts About Sugar*, September 1933, p. 339-40.
48. *Ibid.*

portant and beneficial part of the crop rotation plan in western states, furnishes employment to many laborers, and is one of the few crops which can be profitably grown in the irrigated areas of the West. Finally, any reduction in the sugar crop would only cause farmers to turn to the production of those commodities of which a domestic surplus is already being produced.[49]

Against these contentions other arguments are advanced. Referring to the supposed advantages of beet culture to western states, one authority makes the pertinent inquiry:

> "If beet culture is so very advantageous to the farmer, why does he need a bonus or a protective tariff to be induced to engage in it? . . . If beet culture were really so advantageous a part of the general change, we might expect its speedy and widespread adoption."[50]

Another student points out that the number of farmers who grow beets and cane constitute only 2½ per cent of the total, and enjoy less than 1 per cent of the farm income.[51] In fact, through the increased price of sugar resulting from the existing tariff protection, the vast majority of farmers who are consumers and not producers have paid the cost of the tariff benefits conferred on a small minority of cane and beet growers.[52]

The most serious objection raised against the domestic beet sugar industry is that it is socially undesirable. As revealed by a study of the Children's Bureau in 1920 and a similar study by the National Child Labor Committee, the major part of the beet crop is grown with the aid of very low-paid contract labor—largely Mexican—involving the employment of whole families, including many women and children.[53] Recent investigations by the Children's Bureau have shown that "conditions have changed radically for the worse,"[54] and a representative of the Child Labor Committee has summed up as follows the results of a field study during June and July of this year:

> "Many young children—in fact almost all above 8 years in beet laborer families—are employed in the hand work of sugar-beet production for long hours.
>
> "The wage is so low that the families are forced to work their children in order to eke out an existence.
>
> "Even with the use of their children the family income is so low as to place the standard of living on a starvation level. This works a hardship upon the children, involving poor and unwholesome food, inadequate clothing, almost no recreation, much lost time from school, and crowded living under almost unbelievable housing and sanitary conditions."[55]

Owing to inadequate and irregular payment of wages, many beet laborers have been dependent on public relief during the last few years.[56]

The proposed marketing plan contains a provision whereby beet growers agree to pay their field laborers a return per acre commensurate with the price received for the beets, but this provision is framed in such general terms that its value is considered dubious.[57] Beet growers, moreover, would probably need additional protection if they were required to pay living wages to their laborers; and in such a case the cost of sugar to the consumer might well increase considerably. In view of these facts it is asked whether an Administration which has embarked on a campaign against child labor and low wages will find it politic to foster an industry whose existence depends largely on the continuance of such conditions.

### THE REFINERS' CASE

Since 1925 refiners in the United States have been faced with a mounting importation of refined sugar, reaching 589,092 tons in 1932. Of this amount, 423,252 tons came from Cuba. Enjoying no tariff protection against this influx of refined sugar, owing to the way in which the existing tariff schedule is framed,[58] the refining industry petitioned the Tariff Commission on July 1, 1931, to recommend an adjustment of the duty on refined sugar. Although the commission has not yet published its report, it announced on July 11, 1932

> "that the difference between domestic and foreign costs of refining is not such as to justify the Commission in specifying either an increase or a decrease in the rate of duty on refined sugar, at least until after the Commission has finished the complete sugar investigation . . . Any change in the rate of duty which might result from the present refined sugar investigation would not be sufficient either to increase or to decrease materially the imports of refined sugar from Cuba, or the amount of labor employed in the domestic refineries. The refining process is such that rela-

49. Cf. testimony of C. M. Kearney, Paul B. Prosser, Congressman Fred Cummings, Dr. E. Meade, Chester H. Gray, A. L. Litel, J. W. Gilman, George T. Colby, A. N. Mathers, and Congressman L. Lewis, *Hearings on the tentative Sugar Marketing Agreement*, cited.

50. F. W. Taussig, *Some Aspects of the Tariff Question* (Cambridge, Harvard University Press, 1931, 3rd edition), p. 93.

51. Ellis, *The Tariff on Sugar*, cited, p. 156-7.

52. *Ibid.*, p. 155-6. The price of sugar in the United States is on the average higher than the world price by the amount of the duty on Cuban sugar. On this basis Dr. Ellis figures that American farmers paid, in the aggregate, an average of $42,194,240 more for their sugar annually from 1922 to 1929 due to the tariff. Under the new tariff rate the burden rose to $50,331,400 in 1930. The tariff benefits received by the beet and cane industries in the United States during the same periods amounted to $42,545,974 and $53,525,395 respectively.

53. For a discussion of these reports, cf. R. L. Buell, "Sugar and the Tariff," *Foreign Policy Reports*, May 29, 1929, p. 104.

54. Testimony of Katherine F. Lenroot, Assistant Chief of the Children's Bureau, *Hearings on the tentative Sugar Marketing Agreement*, cited, p. 420-1.

55. *Statement on Conditions Relating to Sugar Beet Workers in Colorado, submitted by C. E. Gibbons representing the National Child Labor Committee at the Hearing on the Sugar Stabilization Agreement*, August 11, 1933, p. 1.

56. Testimony of Mr. E. L. Kirkpatrick, representative of the Federal Emergency Relief Administration, and of Leo Rodriguez, a beet laborer, *Hearings on the tentative Sugar Marketing Agreement*, cited, p. 331-2 and 441-4.

57. Cf. Section 17 (b) of the Agreement. Disputes arising under this section are to be decided by the Secretary of Agriculture. The Children's Bureau, the National Child Labor Committee, and the Catholic Conference on Industrial Problems have suggested a substitute provision which would definitely prohibit child labor, limit the number of acres to be contracted for in accordance with the number of bona fide workers in the beet workers' family, and lay down a minimum contract price per acre.

tively little labor is required. The total number of wage earners in all of the domestic cane sugar refineries in 1929 . . . was less than 14,000."[59]

It might be pointed out also that increased tariff protection would help the cane-sugar refiners only partially, since but 16 per cent of the reduction in the volume of their meltings since 1929 is traceable to increased imports from Cuba, whereas 54 per cent is due to the decrease in domestic consumption, 22 per cent to the increased output of beet sugar refiners, and 8 per cent to larger importations from Hawaii, the Philippines, and Puerto Rico.

The refiners have also sought to obtain their objective through the proposed Sugar Marketing Agreement.[60] Sugar refining, they contend, can be done so much more cheaply in Cuba that there is grave danger, if importations are not checked, that Cuba will in time refine all the sugar it produces.[61] Cuban refiners, on the other hand, hold this fear to be exaggerated.[62] While conceding that refining in Cuba may have certain advantages, the chief of which are easy access to the market of the South Atlantic and Gulf states and the possibility of refining sugar in a continuous process from the cane during the harvest season, they contend that the chief impulse to refining in Cuba has been the extremely low price of raw sugar, which has caused Cuban producers to start refining in the hope of recouping their losses partly by obtaining part of the refiner's differential.[63] They would also deny the domestic refiners relief on the ground that they have earned ample profits even in the last years of the depression.[64]

Fear is expressed also that the practical prohibition of imports of refined sugar into the continental United States would place consumers of sugar at the mercy of the domestic cane refiners, who have always shown a propensity toward monopolistic practices. In the pre-war period the sugar trust was one of the most obnoxious of monopolies,[65] and as recently as 1931 the Federal government began suit—judgment on which is still pending—against the refiners comprised in the Sugar Institute for violation of the anti-trust laws. The code of fair practices which these same refiners filed with the Administration in August, pursuant to the provisions of the National Recovery Act and the Agricultural Adjustment Act, is regarded as facilitating price-fixing and other monopolistic practices inasmuch as it guards in great detail against all forms of price-cutting, concealed and open rebates, and any other digression from the refiner's announced price.[66] Refiners, on the other hand, argue that the danger of monopoly is obviated by the potential competition of beet-sugar producers and by the eagerness of all refineries, now operating at little more than 50 per cent capacity, to continue competition in order to increase the volume of their output. The code of fair practices, they assert, is entirely in line with the Administration's policy of abolishing unethical cut-throat competition.

### PRODUCERS IN AMERICAN POSSESSIONS

The protective tariff, as has been pointed out, has produced an artificial expansion in the cane-sugar industry of America's insular possessions. Critics have found that this unnatural stimulation has brought but little benefit to the native population of the territories concerned, resulting—particularly in Hawaii and Puerto Rico—in certain undesirable social consequences such as too great domination of American capital, concentration of land ownership, and an artificial ten-

58. The tariff law makes no distinction between raw and refined sugar, classifying all sugars only by the degree of sucrose content as tested by the polariscope. Under the 1930 tariff the basic duty of 1.37 cents per pound, fixed for Cuban sugar polarizing 75 degrees, increases by an increment of .03 cents per pound for every additional degree. The duty for 96 degree sugar, usually cited as the standard duty, is therefore 2 cents and that for 100 degree sugar, i.e., pure granulated or refined sugar is 2.12 cents. Since an American refiner must import 1.07 pounds of 96 degree raw sugar to make one pound of 100 degree sugar, he must pay a duty of 2.14 cents. The Cuban refiner, however, can get a pound of refined sugar into the American market on the payment of a duty of only 2.12 cents, so that he enjoys an advantage of 2 cents per 100 pounds over the American refiner. This advantage is offset, however, by the fact that the latter in importing 1.07 pounds of raw sugar gets in free the by-products left after refining.

59. *U. S.* Tariff Commission, Public Information, July 11, 1932.

60. The tentative quotas written into the agreement are for "direct consumption" sugar, not for refined sugar alone. Since each year some sugar is imported for direct consumption even though it is not refined, and since this sugar must, like refined sugar, be charged off against the total quota at the ratio of 107:100, further curtailment of imports of actually refined sugar is made possible. According to the testimony of J. E. Snyder, Vice-President of the Hershey Corporation, Cuba exports about 40,000 tons of this non-refined "direct consumption" sugar. Cf. *Hearings on the tentative Sugar Marketing Agreement,* cited, p. 289.

61. U. S. Tariff Commission, *Investigation No. 66, Briefs of the Domestic Sugar Industries,* April 12, 1932 and February 14, 1933.

62. *Ibid., Brief for the Hershey Corporation,* p. 14-21; also *Brief for the Cuban Refiners,* February 14, 1933.

63. The differential between the cost of raw and refined sugar averaged 1.136 cents per pound in 1926, 1.098 cents in 1927, and jumped to 1.311 cents in 1928 following the organization of American cane refiners in the Sugar Institute on January 7 of that year. It was 1.256 cents in 1930, but dropped to 1.096 cents in 1931 and to 1.058 cents in 1932. Cf. Ellis, *The Tariff on Sugar,* cited, p. 139.

64. The net income of three of the biggest refining companies over the last five years has been:

| | *American Sugar Refining Company* | *National Sugar Refining Co. of N. J.* | *Savannah Sugar Refining Corp.* |
|---|---|---|---|
| 1928 | $6,568,612 | $3,372,986 | $571,201 |
| 1929 | 6,645,803 | 2,954,744 | 556,410 |
| 1930 | 5,659,947 | 2,406,842 | 463,749 |
| 1931 | 4,155,031 | 2,166,028 | 466,009 |
| 1932 | 4,327,987 | 1,413,809 | 429,429 |

Source: Farr & Co., *Bulletin,* June 21, 1933.

65. Taussig, *Some Aspects of the Tariff Question,* cited, p. 100-14.

66. For the text of this code, which has not yet been approved, cf. *The Journal of Commerce,* August 9 and 10, 1933. At the hearings on August 29 the refiners abruptly withdrew their code from consideration after charging Dr. Berle, legal adviser of the Agricultural Adjustment Administration, with bias. This action was apparently prompted also by attacks on the code by a representative of the Godchaux Sugar Company of Louisiana and by vigorous opposition to the inclusion of the refiners in any sugar marketing agreement. Mr. Hershey, Vice-President of the Hershey Corporation, had charged that the refiners "had no business" in any marketing agreement under the Agricultural Act, since they were not producers but merely washers or processors of sugar already produced. (Cf. *Facts About Sugar,* September 1933, p. 339-40.) The refiners' code is likely to be resubmitted, however, as soon as a new marketing agreement is drafted.

dency toward a one-crop economy.[67] However, since capital has been invested in these territories and the sugar industry built up on the basis of their inclusion within the American protective system, it might well be argued that, if a readjustment is to take place and Cuba is to be restored its former share in the American market, such a change should be gradual.[68]

### CUBA AND RECIPROCITY

To the Cuban sugar industry, the tentative quota assignment of 1,700,000 tons in the Marketing Agreement is absolutely indefensible. Cuban sugar interests ask a quota of at least 2,525,000 tons, of which 600,000 tons might be refined sugar.[69] In the eyes of Cubans, the United States by its successive tariff increases on sugar has violated the spirit of the Reciprocity Treaty of 1903 which granted Cuban products a 20 per cent reduction from American tariff rates. This treaty, it is recognized by experts,[70] could be of benefit to Cuba only so long as the American duty on foreign sugar remained low enough to check an expansion in domestic sugar production. Actually, the exact opposite of this has taken place.

Cubans point out that the American people are likely to gain by restoring Cuban sugar to its former place in the American market. Consumers would benefit, inasmuch as Cuba can produce sugar for the most part more cheaply than the United States and its possessions.[71] Cuba would also be a more dependable source of sugar supply in case of war, since it is only ninety miles from the American coast as compared with a thousand miles for the nearest American dependency—Puerto Rico. In addition there is a direct economic interest, arising from the fact that Americans have about $600,000,000 invested in Cuban sugar,[72] and that, as the following table indicates, the United States has lost one of its most profitable Latin-American markets as a result of the rapid decline in the value and volume of Cuba's sugar exports to this country.

**AMERICAN TRADE WITH CUBA**
*(in thousands of dollars)*

| Year | *Cuban exports to the U. S.* | *Cuban exports of vegetable and food products (chiefly sugar) to the U. S.* | *American exports to Cuba* |
|---|---|---|---|
| 1925-29 (average) | 235,864 | 200,945 | 150,078 |
| 1930 | 121,949 | 95,454 | 91,858 |
| 1931 | 90,059 | 71,553 | 46,240 |
| 1932 | 58,330 | 46,928 | 28,396 |

Source: U. S. Tariff Commission, *Statistics on Sugar* (May 1933), p. 42-3.

That the Administration is not unaware of the equity of Cuba's claim or of the advantages to be gained from an expansion of American trade with the island commonwealth is apparent in the resolve to negotiate a new reciprocity treaty replacing that of 1903. An increased tariff preference for Cuban sugar would increase the sale of such sugar in the American market in proportion as the ensuing reduction in the tariff rate would bring about curtailment of production in the continental United States and the insular possessions. Possibly such a preference could be coupled with a gradually increasing export quota, thus permitting domestic sugar interests to adjust themselves more gradually to a curtailment of production. Moreover, it might be desirable to associate any aid for Cuba's sugar industry with some project for agrarian reform in Cuba, so that the benefits of such aid might accrue to the Cuban people as a whole rather than largely to American capitalists.

The method by which the Administration seeks to solve the sugar question, whether through a marketing agreement or through a new reciprocity treaty with Cuba, will afford a measure of its preparedness to implement its policy of planned national recovery with a program of international action. The history of the sugar problem illustrates the inefficacy of economic nationalism. Both in the pre-war and the post-war period purely domestic remedies, conceived in a narrow national spirit, have proved insufficient, yielding in turn to the International Sugar Convention of 1902 and the Chadbourne Agreement of 1931. The latter, however, is an agreement between producers only. It might still be questioned whether an inter-governmental treaty — like the wheat accord signed on August 25, 1933[73]—would not be more effective in dealing with the sugar problem.

67. Cf. B. W. and J. W. Diffie, *Porto Rico—A Broken Pledge* (New York, Vanguard, 1931), p. 88; also P. W. Bidwell, *Tariff Policy of the United States* (New York, Council on Foreign Relations, 1933), p. 82-3; and Taussig, *Some Aspects of the Tariff Question*, cited, p. 58-69.

68. Under the Philippine Independence Act of 1933 (H. R. 7233), the Philippines would be allowed a duty-free quota of 850,000 long tons of sugar for a transitional period of ten years.

69. *Hearings on the tentative Sugar Marketing Agreement*, cited, p. 72, 79.

70. Both Dr. Bidwell and Professor Wright hold that the treaty has been an empty gesture since 1913, when foreign sugar other than Cuban practically disappeared from the American market. Since that time American legislators have sought to protect the domestic sugar growers against Cuban sugar and have fixed the sugar duty solely with reference to Cuban sugar. Cf. Bidwell, *Tariff Policy of the United States*, cited, p. 29-32; Philip G. Wright, *The Cuban Situation and Our Treaty Relations* (Washington, The Brookings Institute, 1931), p. 61-72; also Ellis, *Sugar and the Tariff*, cited, p. 68-70.

71. In its investigation of costs, the majority of the Tariff Commission found the following average cost differences for the three-year period 1921-1923:

| | *In Cents* |
|---|---|
| Hawaii | 4.9870 |
| Puerto Rico | 5.2244 |
| Louisiana | 5.0949 |
| U. S. beet | 5.6905 |
| Average U. S. | 5.3692 |
| Cuba | 3.8440 |
| Difference | 1.5252 |

Source: U. S. Tariff Commission, *Sugar, Report to the President of the United States* (Washington, Government Printing Office, 1926), p. 92.

72. Wright, *The Cuban Situation and Our Treaty Relations*, cited, p. 56-8.

73. "International Wheat Agreement," *Foreign Policy Bulletin*, September 1, 1933.

# THE ADMINISTRATION'S SUGAR PLAN

(*Supplement to "Sugar: An International Problem,"* Foreign Policy Reports, *September 27, 1933.*)

In a special message submitted to Congress on February 8, 1934, President Roosevelt proposed a solution of the difficult sugar question which has claimed official attention since last summer. The Agricultural Adjustment Administration had previously made repeated efforts to persuade sugar producers in all the areas supplying the American market to put into effect a voluntary marketing plan, but no agreement could be reached on the allotment of quotas. A final plan, made public on September 25, had been rejected by the Secretary of Agriculture on the ground that it was unfair to Cuba as well as to American consumers.

To enable the administration to carry out its own sugar stabilization program, the President suggested several amendments to the Agricultural Adjustment Act. The first would make sugar a "basic agricultural commodity" and authorize the imposition of a processing tax from the proceeds of which beet- and cane-sugar growers would be compensated for limiting or reducing their crops. The second would permit the Secretary of Agriculture to license refiners, importers and handlers of sugar so as to enforce compliance with the quotas to be imposed on each of the producing areas. Bills to carry these recommendations into effect have been introduced in the Senate by Senator Costigan (S. 2732), and in the House by Representative Jones.

In his message the President acknowledged that one school of thought favors the free importation of sugar on the ground that the tariff of 2 cents a pound costs American consumers more than $200,000,000 annually to protect a domestic beet- and cane-sugar crop valued at only $60,000,000. He declared, however, that "we ought first to try out a system of quotas with the three-fold object of keeping down the price of sugar to consumers, of providing for the retention of beet and cane farming within our continental limits, and also to provide against further expansion of this necessarily expensive industry."

Under the administration bills introduced in Congress, the Secretary of Agriculture would have considerable latitude in determining from time to time the quota allotments for each area. He would be authorized in each case to base the quota on the amount supplied the American market during any three-year period from 1925 to 1933 inclusive. In expressing the opinion that "the last three years provide on the whole an equitable base," the President sought to indicate how this discretionary power would be exercised. He suggested the quotas which, with some "slight adjustments," might be imposed.

To judge the full import of these suggested quotas they should be compared, as in the table below, with the quantities marketed in the continental United States during the last two years, and with the maximum and minimum quotas which the Secretary of Agriculture would theoretically be empowered to impose if the administration bills are passed by Congress:

| *Producing area* | *Amount supplied*[1] *1932* | *1933* | *Estimated production*[1] *crop year 1933-1934* | *Quota*[1] *proposed by the President* | *Discretionary quota limits*[1] *under administration bills* *Maximum* | *Minimum* |
|---|---|---|---|---|---|---|
| United States | | | | | | |
| Beet Sugar | 1,148 | 1,351 | 1,624 | 1,450 | 1,374 | 960 |
| Cane Sugar | 156 | 259 | 252 | 260 | ——[2] | ——[2] |
| U. S. Possessions | | | | | | |
| Hawaii | 1,021 | 992 | 1,029 | 935 | 994 | 760 |
| Puerto Rico | 894 | 769 | 981 | 821 | 821 | 577 |
| Philippines | 1,040 | 1,229 | 1,568 | 1,037 | 1,029 | 468 |
| Virgin Islands | 4.3 | 4.6 | 7.8 | 5 | ——[2] | ——[2] |
| Cuba | 1,807 | 1,630 | 2,593 | 1,944 | 3,905 | 1,948 |
| Total | 6,070.3 | 6,234.6 | 6,054.8 | 6,452 | | |

1. Figures are in thousands of short tons.
2. The Secretary of Agriculture would be authorized to determine without reference to any three-year period the quota for any area producing less than 250,000 long tons of sugar during the next preceding year.

The 935,000-ton quota proposed for Hawaii is slightly less than the amount furnished the American market in the last two years, but still some 60,000 tons larger than the annual average marketed from 1927 to 1931.[1] The Puerto Rican quota of 821,000 tons is considerably larger than the annual exports to the United States from 1927 to 1931, but somewhat less than the record exports of 894,000 tons during 1932. The Virgin Islands would receive a small quota almost equivalent to its average exports to the United States over the past few years.

The quota suggested by the President for the Philippines is particularly significant. Under the stimulus of tariff protection, sugar production in the Islands has more than doubled in the last seven years. The

1. Cf. "Sugar: An International Problem," *Foreign Policy Reports,* September 27, 1933, table, p. 169.

record crop of 1,568,000 short tons estimated for 1933-1934 compares with a production of only 655,000 tons in 1926-1927. Sugar exports to the United States constituted 32 per cent of the total value of Philippine exports during 1929, and 70 per cent in 1933. The Hare-Hawes-Cutting Act proposed to limit annual duty-free imports of sugar to 850,000 long tons (about 952,000 short tons) during the transitional period of 10 years prior to complete independence. Under the arrangement suggested by the President, total sugar imports would be restricted to 1,037,000 short tons. While this amount would be somewhat less than the record figure of 1933, the Philippines would still be able to send to the United States about 350,000 tons more than they exported on the average from 1927 to 1931.

As shown in the table, the Secretary of Agriculture might ultimately make further reductions in the quotas tentatively assigned to the insular possessions of the United States. The Secretary would have the authority, however, to compensate producers in these areas from the proceeds of the processing tax.

Reduction in the amounts of sugar marketed in the continental United States by producers within the American tariff wall would enable Cuba to regain at least part of the American market which it lost owing to the rapid expansion of production in the United States and American possessions following the tariff legislation of 1922 and 1930. One of the declared objects of the President's plan is to "contribute to the economic rehabilitation of Cuba." The suggested allotment of 1,944,000 tons is 244,000 tons larger than the Cuban quota proposed in the various marketing plans considered during August and September of last year, and considerably exceeds the amount marketed in the United States during 1932 and 1933. Last year receipts of Cuban sugar were only 1,630,000 tons. On the other hand, as much as 3,218,000 tons were imported from Cuba annually from 1927 to 1931. A number of experts, therefore, believe that a much larger quota is needed to make Cuba's basic industry prosperous once more. Others contend that the quota is adequate or that it represents at least the maximum concession obtainable. At any rate, the Secretary of Agriculture would be able, if necessary, to increase the allotment up to a maximum of no less than 3,905,000 short tons—the average amount exported to the United States from 1925 to 1927 inclusive. Moreover, in his message the President held out the prospect of an increase in the Cuban tariff preferential. While a reduction in the tariff on Cuban sugar would not benefit Cuba directly, since imports would in any event be limited to the quota, it might ultimately enable Cuban producers to obtain higher prices for their sugar.

The President pledged that his plan would safeguard the interest of consumers. The processing tax on sugar will be offset by an equivalent reduction in the tariff duty. Under paragraph 501 of the Smoot-Hawley Tariff Act of 1930, the President is authorized to reduce tariff rates by as much as 50 per cent whenever the Tariff Commission finds that such action is warranted by a relative change in domestic and foreign costs of production. The Commission is known to have recommended a reduction of one-half cent a pound in the present sugar duty.

Another interesting feature of the President's recommendations is that, unlike the plans previously considered, they omit any regulation of refined sugar imports. This omission is presumably dictated by the conviction that the question of refined sugar should be treated on its own merits, rather than in connection with what is essentially an agricultural problem. Domestic sugar refiners, however, are waging a determined campaign for the inclusion of some limitation on imports of refined sugar into the United States. In large advertisements placed in leading papers they have pointed out that such imports have increased steadily from 16,782 tons in 1925 to 626,598 tons in 1933, and that last year 439,319 tons were imported from Cuba alone. Although the refiners are demanding protection against "tropical labor," the Tariff Commission in a provisional opinion of July 11, 1932 announced that the difference between domestic and foreign costs of refining was not such as to justify an immediate change in the tariff.[2] Moreover, in a decision handed down in United States District Court on March 7, 1934, Judge Julian W. Mack found the refiners associated in the Sugar Institute guilty of monopolistic practices inimical to "the interests of distributors and consumers."[3]

The adoption of the quota plan will pave the way for American participation in the international sugar conference projected by the League of Nations. Preliminary discussions for this conference began in London on March 5. Its purpose will be to extend and make more effective the Chadbourne Agreement of 1931, by which the sugar interests in practically all the chief sugar-producing countries except the United States undertook drastic curtailment of production. The State Department announced on January 13 that the United States was prepared to participate in such a conference as soon as the administration was empowered to carry out a domestic sugar allotment plan.

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2. *Ibid.*, p. 170. The final findings of the Commission have not yet been made public.

3. *New York Times*, March 8, 1934.